

1        However, the DCF test is a distinct outlier on the low side.  
2        The other three tests are closely clustered in a range of  
3        12.7% to 13.0% compared to 10.1% for the DCF model using  
4        electric utilities. Because of the DCF model's problems  
5        demonstrated in Schedule 3 of my testimony, and the superior  
6        accuracy and reliability of the market equity risk premium  
7        model shown in Schedule 5, the DCF model using electric  
8        utilities should be given little weight in determining the  
9        Company's cost of common stock. It is my judgment,  
10       therefore, that Iowa-Illinois' cost of common stock for its  
11       electric operations is at least 12.5%.

12    Q.    Can Iowa-Illinois maintain its weak double A bond rating if  
13       it earns 12.5% on its common stock equity?

14    A.    Standard & Poor's determines bond ratings based on  
15       quantitative and qualitative considerations. The five key  
16       quantitative considerations revolve around income and asset  
17       protection and cash flow adequacy. They are: pretax  
18       interest coverage, funds flow interest coverage, total debt  
19       to total capital including preferred stock, funds from  
20       operations to total debt, and net cash flow to capital  
21       expenditures. The benchmark levels for single A and double  
22       A bond ratings appear in Schedule 22.

23       Based on the common equity ratio used in this  
24       proceeding and interest coverages based on a 12.5% return on  
25       common stock equity for the test year, the Company should be  
26       able to maintain its weak double A bond rating.

1 Q. Does this complete your testimony?

2 A. Yes, thank you, it does.

ISSUANCE COSTS

Flotation or issuance costs are those costs incurred in the issuance of new common stock and take the form of underwriter's compensation and other related expenses. An adjustment for these costs is necessary if investors are to earn the return found fair by the Commission. It is necessary even if new common stock is not sold. Because of issuance costs, net proceeds are less than invested capital. Issuance costs are not recovered as expenses in the ratemaking sense, but result in a permanent reduction in book equity. A fair return applied to book equity with no adjustment for issuance costs would produce a lower than fair return on investors' capital.

When evaluating the need for an adjustment for common stock issuance costs, it is instructive to note the treatment given to expenses incurred in conjunction with a debt issue. The true cost of debt, issued at par, is greater than its coupon, or interest rate, because of the costs incurred in issuing the bonds. For example, if a company sold \$100 million of debt at par, with a 10.0% rate of interest and received proceeds of \$97 million, the cost is not 10.0% but is 10.33%. The cost is higher because proceeds to the company were less than the amount of debt issued due to issuance expenses. The higher cost reflects recovery of issuance expenses over the life of the bond. Moreover, it is necessary to recognize this cost over the life of the bond, irrespective of whether additional new debt is, or is not, sold.

A similar adjustment is necessary to determine the cost of perpetual preferred stock. For example, if a company issued \$100 million of preferred stock, at par, at an 8.50% dividend rate, but only received proceeds of \$97.5 million, the cost to the company is 8.72%, not 8.50%. This higher cost reflects the recovery of the issuance expenses in each year for this security. In this case, the preferred stock issue is assumed to be perpetual in nature as is common stock.

The same requirement is necessary for the Company's common stock, with recognition that common stock is assumed to be outstanding indefinitely. After paying issuance costs, net proceeds to the company are less than the total invested by stockholders. The net proceeds must earn at a higher rate in order to provide the intended return on all the monies actually invested.

A simple example shown beginning on page 3 of this Schedule will show that a permanent adjustment for flotation costs is necessary. Assume, for example, that:

1. The company issued \$100 million of common stock.
2. The cost of common stock was 13.00% with a 4.50% growth and a 8.50% yield. The estimate of 13.00% was the rate which the commission determined to be fair and reasonable.
3. Issuance costs were 4.0%. See page 6 of this Schedule which details the stock issuances and related expenses.
4. No additional common stock was sold.

After issuance costs, proceeds from the \$100 million sale of common stock would be \$96.00 million. Therefore, the common equity added to the sample company's books is \$96.00 million. The example shows that for the company to earn \$13.00 on the investment by stockholders of \$100 million, an allowed return of 13.35% would be required on the \$96.00 million.

The formula to equate the cost of common equity capital to the return necessary after issuance costs under the methodology is to divide the yield on a twelve-month forward dividend by 1.0 less issuance costs. It can be seen in this example that this type of adjustment will allow the sample company to earn the 13.00% return the Commission found to be fair in every year.

It is important to note that this adjustment must be made in every year even though no new equity was issued.

ISSUANCE COSTS ARE APPROPRIATELY ALLOWED  
ON ALL INVESTED EQUITY

COLUMN:	A	B	C	D	E	F
	COMMON EQUITY (\$MM)	RETAINED EARNINGS (\$MM)	TOTAL EQUITY (\$MM)	REQUIRED ROE	CURRENT EARNINGS (\$MM)	PAYOUT RATIO
Year						
0	96.00	-	96.00	13.35*	12.82	66.3*
1	96.00	4.32	100.32	13.35	13.39	66.3
2	96.00	4.63	104.95	13.35	14.01	66.3
3	96.00	4.85	109.80	13.35	14.66	66.3
4	96.00	5.07	114.87	13.35	15.34	66.3
5	96.00	5.31	120.18	13.35	16.04	66.3

COLUMN:	G	H	I	J	K	L
	COMMON SHARES (MM)	DIVIDENDS PER SHARE (\$)	DIVIDEND YIELD (%)	SHARE PRICE (\$)	PRICE CHANGE (%)	TOTAL RETURN (%)
YEAR						
0	10	0.850	8.5	10.00	-	-
1	10	0.887	8.5	10.43	4.5	13.00
2	10	0.929	8.5	10.92	4.5	13.00
3	10	0.972	8.5	11.41	4.5	13.00
4	10	1.017	8.5	11.93	4.5	13.00
5	10	1.063	8.5	12.46	4.5	13.00

KEY TO EXAMPLE

COLUMN:

A: COMMON EQUITY	-	(1.0-.04 ISSUANCE COSTS) X \$100 MM IN NEW EQUITY
	-	\$96.00 MILLION
B: RETAINED EARNINGS		PRIOR YEAR'S EARNINGS - PRIOR YEAR'S DIVIDENDS
		(COLUMN E) - COLUMN G X COLUMN H)
	-	\$12.82MM - (10MM SHARES X \$0.85)
	-	\$4.32
C: TOTAL EQUITY	-	NEW COMMON EQUITY - \$96.00 MILLION IN YEAR 0
	-	PRIOR YEAR'S EQUITY + CURRENT YEAR'S EQUITY (POST YEAR 0)
D: REQUIRED RETURN ON EQUITY		REQUIRED DIVIDEND YIELD ADJUSTED FOR ISSUANCE COSTS
		REQUIRED YIELD DIVIDED BY (1-ISSUANCE COSTS) + GROWTH RATE
	-	8.3%/(1-.96) + 4.5%
	-	13.35%
E: CURRENT EARNINGS		TOTAL EQUITY X REQUIRED RETURN
		(COLUMN C) X (COLUMN D)
I.E. YEAR 1	-	\$96.00 x 13.35%
	-	\$12.82 MM.
F: PAYOUT RATIO	-	1 - GROWTH REQUIRED/REQUIRED ROE
	-	1 - (.045/.1335)
	-	66.3%

G: COMMON SHARES	- TOTAL EQUITY INVESTED BY INVESTORS/PAR VALUE OF SHARES
	- \$100 MILLION /\$10
	- 10 MILLION SHARES
H: DIVIDENDS PER SHARE	- EARNINGS X PAYOUT RATIO/SHARES OF COMMON STOCK
	- (COLUMN E) X (COLUMN F)/COLUMN G)
	- \$12.82 X 66.3%/10 MILLION SHARES
	- \$0.85
I: DIVIDEND YIELD	- DIVIDENDS PER SHARE/SHARE PRICE
	- (COLUMN H)/(COLUMN J)
	- \$0.85/\$10.00
	- 8.5%
J: SHARE PRICE	- DIVIDENDS PER SHARE/(COST OF EQUITY - REQUIRED GROWTH RATE)
	- \$0.85/(0.13 - .045)
	- \$10.00
K: PRICE CHANGE	- CHANGE IN SHARE PRICE (COLUMN J)
	- (\$10.45-\$10)/\$10
	- 4.5%
L: TOTAL RETURN	- DIVIDEND YIELD + SHARE PRICE APPRECIATION
	- (COLUMN I) + (COLUMN K)
	- 8.50% + 4.5%
	- 13.0%

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IOWA-ILLINOIS GAS AND ELECTRIC COMPANY  
COMMON STOCK ISSUANCE COSTS

	<u>SUBSCRIPTION PRICE</u>	<u>UNDERWRITING EXPENSES</u>	<u>OTHER ISSUANCE EXPENSES</u>	<u>TOTAL ISSUANCE COSTS</u>
	\$	\$	\$	\$
1972	9,364,348	122,649	187,251	309,900
1973	8,868,750	412,005	88,971	500,976
1975	18,000,000	830,000	115,592	945,592
1977	16,500,000	480,000	87,044(1)	567,044
1978	16,218,750	480,000	87,043(1)	567,043
1980	17,750,000	640,000	67,783	707,783
1992	61,562,500	2,125,000	247,822	2,372,822
TOTALS:	148,264,348	5,089,654	881,506	5,971,160
AVERAGE ISSUANCE COST:				4.0%

- (1) Issuance costs for the 1977 and 1978 common stock issues were reported together in 1978. For this purpose, one-half of the costs were assigned to each of the years 1977 and 1978.

DOCKET NOS. RPU-83-22, RPU-84-23  
(TF-86-743, TF-87-131)



TERRY E. BRANSTAD, GOVERNOR

IOWA S

IOWA-ILLINOIS GAS AND ELECTRIC COMPANY

Docket Nos. RPU-83-22 RPU-84-23 (TF-86-743, TF-1

"ORDER ACCEPTING STIPULATION"

Issued January 13, 1988

Parties Served:

Edward J. Hartman  
Vice President - General Counsel  
Iowa-Illinois Gas & Electric Company  
206 East Second Street  
Davenport, IA 52801

Roger D. Colton  
National Consumer Law Center  
11 Beacon Street, Suite 821  
Boston, MA 02108

William F. Sueppel  
Meardon, Sueppel, Downer & Hayes  
122 South Linn Street  
Iowa City, IA 52240

James R. Maret  
Consumer Advocate  
Department of Justice  
Consumer Advocate Division  
Lucas State Office Building  
Des Moines, IA 50319

CERTIFICATE OF SERVICE

The undersigned hereby certifies that  
the foregoing document has been served  
this day upon all parties of record in this  
proceeding by mailing, by first class mail,  
to each such party a copy thereof, in  
properly addressed envelope with charges  
prepaid.

Date: 01-13-88

Walter Ladd

JAN 14 1988

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES DIVISION

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IN RE:	)	
	)	
IOWA-ILLINOIS GAS AND ELECTRIC	)	DOCKET NOS. RPU-83-22
COMPANY	)	RPU-84-23
	)	(TF-86-743, TF-87-131)
	)	

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ORDER ACCEPTING STIPULATION

(Issued January 13, 1988)

On January 11, 1988, a "Stipulation" signed by all parties to the judicial review proceedings in Iowa-Illinois v. ISCC, 412 N.W.2d 600 (Iowa 1987) was filed with the Utilities Board (Board). The stipulation was designed to resolve all remaining issues in Docket No. RPU-83-22, the electric rate case, and Docket No. RPU-84-23, the gas rate case. The Board has reviewed the stipulation and it will be accepted as the final resolution of all issues in these dockets.

Consistent with the terms and agreements contained in the the stipulation, the gas tariffs, identified as TF-86-743, will be deemed final rates in Docket No. RPU-84-23, and the electric tariffs, identified as TF-87-131, will be deemed final rates in Docket No. RPU-83-22. The Board further finds that no additional refunds are required in these dockets; therefore, cancellation of the respective corporate undertakings will be approved. Finally, the Board will terminate these dockets.

IT IS THEREFORE ORDERED:

1. The stipulation filed in Docket No. RPU-83-22 is accepted.
2. The stipulation filed in Docket No. RPU-84-23 is accepted.

Docket Nos. RPU-83-22, RPU-84-23 (TF-86-743, TF-87-131)

Page 2

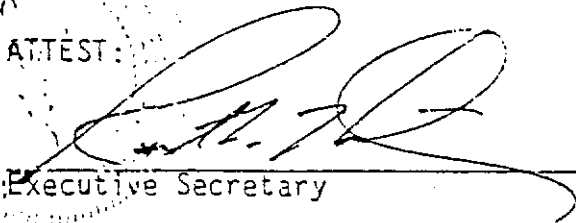
3. Tariff filings TF-86-743 and TF-87-131 are accepted as final rates in Docket Nos. RPU-84-23 and RPU-83-22 respectively.

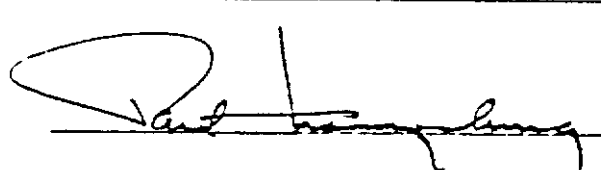
4. No additional refunds are required in Docket No. RPU-84-23 or Docket No. RPU-83-22 and the respective corporate undertakings shall be cancelled.

5. Docket No. RPU-84-23 and Docket No. RPU-83-22 are terminated.

UTILITIES BOARD

ATTEST:

  
Executive Secretary

  
Nancy Sherman Boyd

Dated at Des Moines, Iowa, this 13th day of January, 1988.

IN RE:

DOCKET NOS. RPU-83-22  
AND RPU-84-23

By bench ruling of October 13, 1983, and subsequent order of October 14, 1983, the Board authorized Iowa-Illinois to begin

collecting an interim electric rate increase, subject to refund, of \$37,088,000 above the final Board order level in Docket No. RPU-81-5, which collections began on October 14, 1983. On April 25, 1984, the Board issued its Order Modifying and Affirming Proposed Final Decision reducing the annual increase in electric rates to approximately \$36,027,000 above the Docket No. RPU-81-5 final order level.

Petitions for Judicial Review of the Board's April 25, 1984 Order were filed by Iowa-Illinois and the OCA. On June 13, 1984, as modified on July 24, 1984 and April 30, 1986, the District Court for Scott County, Iowa authorized Iowa-Illinois to collect additional amounts of annual electric revenue above the April 25, 1984 Order level.

On May 11, 1984, Iowa-Illinois filed revised gas tariffs with the Board designed to recover additional annual gas revenue of \$7,675,000 above the level authorized by the Board in Docket No. RPU-80-19. The revised gas tariffs were suspended by the Board by Order of May 30, 1984, docketing the case as a formal proceeding, Docket No. RPU-84-23. The only intervenor in Docket No. RPU-84-23 was the OCA.

On August 3, 1984, the Board authorized Iowa-Illinois to begin collecting an interim gas rate increase, subject to refund, of \$5,275,000, which collections began on August 6, 1984. On August 29, 1984, the Board issued an Order reducing the annual increase in gas rates to approximately \$4,259,000.

Petitions for Judicial Review of the August 29, 1984 Order were filed by Iowa-Illinois and the OCA. Those Petitions were consolidated with the appeals pending before the District Court for Scott County, Iowa, regarding the Board's April 25, 1984 Order in Docket No. RPU-83-22.

By decision dated April 2, 1986 and order of April 30, 1986, the District Court reversed in part, remanded in part, and affirmed in part the Board's April 25, 1984 Order and August 29, 1984 Order. Appeals were thereafter taken to the Iowa Supreme Court by Iowa-Illinois, the OCA, and the Board.

On December 16, 1986, Iowa-Illinois filed with the Board revised gas tariffs in Docket No. RPU-84-23, identified as TF-86-743, designed to produce annual gas revenues of \$5,212,000 above the level authorized by the Board in Docket No. RPU-80-19. The revised gas tariffs were permitted by the Board to become effective February 2, 1987. By order issued March 13, 1987 in Docket No. RFU-87-8, the Board also approved a refund plan filed by Iowa-Illinois on February 16, 1987, as amended March 10, 1987, by which Iowa-Illinois refunded to its Iowa gas customers the amount of approximately \$159,000 plus interest and sales taxes.

On April 30, 1987, Iowa-Illinois filed revised electric tariffs in Docket No. RPU-83-22, identified as TF-87-131, designed to produce annual electric revenues of \$41,599,000 above the level authorized by the Board in Docket No. RPU-81-5. The



revised electric tariffs were permitted by the Board to become effective June 1, 1987.

On September 23, 1987, the Iowa Supreme Court affirmed the District Court's April 2, 1986 decision and April 30, 1986 order on all issues. At the time of this Stipulation, Docket Nos. RPU-83-22 and RPU-84-23 are before the Board on remand.

## ARTICLE II

### Purpose

This Stipulation has been prepared and executed by the Stipulating Parties for the purpose of resolving all issues in, and disposing of, Docket Nos. RPU-83-22 and RPU-84-23.

## ARTICLE III

### Covenants

The Stipulating Parties stipulate and agree as follows:

1. For purpose of settlement, the gas tariffs identified as TF-86-743, permitted by the Board to become effective February 2, 1987, shall be deemed to be the final approved rates in Docket No. RPU-84-23. No further refunds of collections by Iowa-Illinois associated with Docket No. RPU-84-23 and its attendant appeals shall be required.

2. For purpose of settlement, the electric tariffs identified as TF-87-131, permitted by the Board to become effective on June 1, 1987, shall be deemed to be the final rates in Docket No. RPU-83-22. The issue remanded to the Board by the

District Court, as affirmed by the Supreme Court, shall be deemed to be resolved by this Stipulation; provided, however, that neither the methodology employed by the Board nor the resolution of that issue shall be cited as a precedent by any Stipulating Party, including the Board, in any subsequent proceeding involving Iowa-Illinois. No additional surcharge or refunds of collections by Iowa-Illinois associated with Docket No. RPU-83-22 and its attendant appeals shall be required.

#### ARTICLE IV

##### Privilege and Limitation

This Stipulation shall become effective and be binding upon the Stipulating Parties upon its execution by all signatories; provided, however, that if this Stipulation does not become effective it shall be null, void, and privileged. This Stipulation is intended to relate only to the specific matters referred to herein. No Stipulating Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein. No Stipulating Party shall be deemed to have approved, accepted, agreed or consented to any ratemaking principle or any method of cost-of-service determination, cost allocation, property evaluation or rate design underlying or supposed to underly any of the provisions of this Stipulation or be prejudiced thereby in any future Iowa-Illinois rate proceeding or any other proceeding.

## ARTICLE V

### Relationship to Existing Tariffs

On June 1, 1987, Iowa-Illinois filed revised gas tariffs, TF-87-186, which reduced the gas rates identified as TF-86-743 by approximately \$1,480,000 annually, in accordance with 199 I.A.C. §30.5. These gas tariffs TF-87-186, which were permitted by the Board to become effective July 1, 1987, are not modified by this Stipulation.

On June 1, 1987, Iowa-Illinois filed revised electric rates, TF-87-187, which reduced the electric rates identified as TF-87-131 by approximately \$8,418,000 annually, in accordance with 199 I.A.C. §30.5. These electric tariffs TF-87-187, which were permitted by the Board to become effective July 1, 1987, are not modified by this Stipulation.

## ARTICLE VI

### Board Action

Within twenty (20) days after the execution of this Stipulation, the Board shall issue an order (1) accepting this Stipulation; (2) acknowledging the gas tariffs identified as TF-86-743 to be the final approved rates in Docket No. RPU-84-23; (3) acknowledging the electric tariffs identified as TF-87-131 to be the final approved rates in Docket No. RPU-83-22; (4) acknowledging that no additional surcharge or refunds of collections by Iowa-Illinois in either Docket Nos. RPU-83-22 or

RPU-84-23 are required; (5) authorizing Iowa-Illinois to cancel its corporate undertakings in Docket Nos. RPU-83-22 and RPU-84-23; and (6) terminating the proceedings in Docket Nos. RPU-83-22 and RPU-84-23 and closing said Dockets.

## IOWA-ILLINOIS GAS AND ELECTRIC COMPANY

By E. J. Hartman  
E. J. Hartman

Vice President-General Counsel  
Iowa-Illinois Gas and Electric Company  
206 East Second Street  
P. O. Box 4350  
Davenport, Iowa 52808

Dated this 16 day of December, 1987.

## IOWA STATE UTILITIES BOARD

By Susan Allender  
Susan Allender

General Counsel for  
Iowa State Utilities Board  
Lucas State Office Building  
Des Moines, Iowa 50319

Dated this 30th day of December, 1987.

## OFFICE OF CONSUMER ADVOCATE

By David R. Conn  
David Conn

Attorney for  
Office of Consumer Advocate  
Lucas State Office Building  
Des Moines, Iowa 50319

Dated this 18th day of December, 1987.

STATE OF IOWA  
IOWA STATE COMMERCE COMMISSION

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IN RE:

IOWA-ILLINOIS GAS AND ELECTRIC CO.

DOCKET NO. RPU-83-22

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ORDER MODIFYING AND AFFIRMING PROPOSED FINAL DECISION

(Issued April 25, 1984)

On February 21, 1984, a proposed final order was issued in this docket by Commissioner Varley, who heard these proceedings as presiding officer. Pursuant to Iowa Code Section 17A.15(3) (1983), notices of appeal were filed by Iowa-Illinois Gas and Electric Company (Company) on March 6 and the Office of Consumer Advocate (OCA) on March 7. Each of these parties filed a response to the other's notice of appeal, and Iowa Ratepayers Association (IRA) filed a response to both notices on March 21. On the same day, the Commission issued an order extending the ten-month deadline in this case, pursuant to Iowa Code Section 476.33(3) (1983). This extended the deadline from March 25 to April 25, 1984.

The proposed final order will be affirmed, subject to the modifications and additions contained in this order. Company's investment in the jurisdictional generating capacity will be corrected to read \$323,419,000 rather than \$324,352,000 (Tr. 2800), and the in-service date for the Louisa Generating Station will be corrected to read October 13, 1984, rather than September 30, 1984.

Excess Capacity

In general, those portions of the proposed final order relating to the determination of Company's excess capacity are adopted by the Commission. However, the Commission will expand on some of the language contained in that order. Iowa Code Section 476.53 (1983 Supplement) defines "excess capacity" as "that portion of the public utility's electric generating capacity which exceeds the amount reasonably necessary to provide adequate and reliable service as determined by the commission." This language directs the Commission to determine what level of generating capacity is necessary to provide "adequate and reliable service." To this end, it is necessary to distinguish between decisions and rulings made with respect to individual generating facilities and Company's total generating capacity. It is clear that the Louisa Generating Station (Louisa), by itself, is "used and useful" and the decisions made by Company with respect to Louisa were prudent when made, both at the original planning stage and during the construction of the facility. However, the required determination concerning the amount of generating capacity reasonably necessary to provide adequate and reliable service is a determination which applies to Company's entire generating capacity, rather than to each plant individually. Each facility may individually meet all of the requirements of the prudence and "used and useful" standards, but Company's total generating capacity may still exceed the amount reasonably necessary to provide adequate and reliable service. It is the Commission's duty to decide what reserve margin dependably provides what the ratepayers need.

Docket No. RPU-83-22  
Page 3

The principles applied by the Commission in this proceeding were recently approved by the Iowa Supreme Court. In Iowa-Illinois Gas and Electric Company v. Iowa State Commerce Commission, No. 83-656, slip op. (April 11, 1984), the Supreme Court stated that "the fixing of rates requires 'a balancing of the investor and the consumer interests,' even if the balancing should result in no net revenues for the utility," citing Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591, 603, 64 S. Ct. 281, 288, 88 L. Ed. 333, 345 (1944). The Supreme Court also stated that "nothing in the constitutional requirement that a utility receive a fair return on its investment prohibits a lower return from the ratepaying public upon a part of the investment that turns out to be unnecessary, even when the utility's decision to make the investment was prudent." (slip op., at 11) The Supreme Court quoted Permian Basin Area Rate Cases, 390 U.S., at 769, 88 S. Ct., at 1361, 20 L. Ed.2d, at 337 (1968), to the effect that "[r]egulation may, consistently with the Constitution, limit stringently the return recovered on investment, for investors' interests provide only one of the variables in the constitutional calculation of reasonableness." Thus, the Iowa Supreme Court has affirmed the Commission's principle of balancing interests and examining the utility's entire generating capacity when determining an electric utility's excess capacity. The basic issue here is not the application of the prudence and "used and useful" standards to individual units. "This argument ignores the distinction between the usefulness of particular facilities and the usefulness of the total of those facilities. All units may be used and useful when viewed individually, but the determinative issue is whether the cumulative investment is used and useful." (Slip op., at 12) The

Docket No. RPU-83-22  
Page 4

applicable test, therefore, is a general one: Is the company's total generating capacity necessary for the provision of adequate and reliable service? Having applied this test, the proposed final order properly finds that all generating capacity in excess of 125 percent of experienced peak demand, as adjusted, is excess capacity, subject to Iowa Code Section 476.53 (1983 Supplement).

#### Method of Calculating Deferred Federal Income Taxes

In the proposed final order, deferred federal income taxes were to be treated according to the principles applied in Northwestern Bell Telephone Company, ISCC Docket No. RPU-82-49 (October 4, 1983), and Iowa Power and Light Company, ISCC Docket No. RPU-82-12 (February 10, 1983). Company was to be allowed to continue to collect the higher rates under bond, pending a decision by the Internal Revenue Service. (P. 26; Order No. 4, p. 36). However, the full Commission will modify the proposed final order with respect to this issue, to reflect the principles applied in Iowa Power and Light Company, ISCC Docket No. RPU-83-24 (April 6, 1984).

Company argues that deferred federal income taxes should be calculated at the statutory rate of 46 percent, while OCA contends that deferred federal income tax liability should be based on a net effective rate of 41.63 percent. The difference results from differing interpretations of the language of Treasury Regulation Section 1.167(1)-1(h)(1)(iii), set forth on page 25 of the proposed final order. That regulation expressly provides that the deferred tax liability must be "computed without regard to credits." In contrast, there is nothing in the regulation which indicates that the deferred federal income tax liability should be computed



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Page 5

without regard to deductions permitted by the Internal Revenue Code (IRC), one of which is the deduction of current state income taxes under IRC Section 164. Furthermore, the use of the term "tax liability" in the regulations supports the conclusion that state income taxes can be deducted in the calculation. Therefore, it is reasonable to conclude that current state income taxes may be deducted in the computation of the deferred federal income tax liability.

Current state income taxes to be deducted in the two calculations of the federal income tax liabilities must be state income taxes calculated in accordance with Iowa law. As we have previously held, Iowa Code Section 422.35 (1983) effectively requires that the same depreciation deductions used in calculating federal taxable income be used in calculating Iowa taxable income because: (1) net income in Section 422.35 starts with federal taxable income, and (2) the statute does not provide for any different depreciation deduction. Iowa Electric Light and Power Company, ISCC Docket No. RPU-83-23 (March 26, 1984); Northwestern Bell Telephone Company, ISCC Docket No. RPU-82-49 (October 4, 1983); Iowa Power and Light Company, ISCC Docket No. RPU-80-36 (July 31, 1981). Therefore, it follows that in the calculation of federal income taxes using straight-line depreciation, the proper state income taxes to deduct are those calculated in accordance with Iowa Code Section 422.35 (1983) using straight-line depreciation. In other words, we conclude Treasury Reg. Section 1.167(1)-1(h)(1)(iii) permits the deduction of state income taxes calculated in accordance with the state law in the calculation of federal deferred income taxes using straight-line depreciation, and where straight-line depreciation is deducted in the calculation of federal income

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Page 6

taxes, straight-line depreciation, in effect, be deducted in the calculation of state income taxes. This results in deferred federal income tax liability equalling 41.63 percent of the difference between the accelerated depreciation deduction and the subsection (1) depreciation deduction.

For all the above reasons, we conclude the correct tax rate to use in calculating deferred federal income taxes for Iowa utilities is 41.63 percent. Therefore, we find OCA's proposed adjustments concerning deferred federal income taxes, as set forth by OCA witness Dupic, should be adopted. We will not allow Company to collect higher rates under bond pending a letter ruling by the IRS.

#### Interest Synchronization Adjustment

The proposed final order adopted the interest synchronization adjustment proposed by OCA. (P. 24; p. 35, Finding No. 23). While the adjustment was properly calculated in the appendices accompanying the proposed final order, the language used may have been unclear. The Commission will calculate the interest synchronization adjustment in the manner proposed by OCA. It should be noted that this adjustment has been upheld in several federal court decisions. Union Electric Company v. Federal Energy Regulatory Commission, 668 F.2d 689 (8th Cir. 1981); NEPCO Municipal Rate Committee v. Federal Energy Regulatory Commission, 668 F.2d 1327 (D. C. Cir. 1981); Public Service Commission of New Mexico v. Federal Energy Regulatory Commission, 653 F.2d 681 (D. C. Cir. 1981).

### Nuclear Decommissioning

The text of the proposed final order was silent with respect to the issue of flow-through treatment of federal income tax balances associated with nuclear decommissioning, a treatment proposed by OCA (Ex. 120, Schedule 1, p. 24, l. 6). However, the relevant calculations should have been made as proposed by OCA, based on the September 30, 1983, balance. This treatment is consistent with Commission precedent and with the treatment of the other tax issues raised, and so the adjustment will be made as proposed by OCA, but on the basis of the September 30, 1983, balance in this account.

### Pilot Project

At the October 17, 1983, hearing conducted in this case, the Iowa Ratepayers Association (IRA) tendered as witnesses several of Company's customers, with the general purpose of testifying as to the effects of a rate increase. On cross-examination, it became apparent that these ratepayers did not understand the functioning of a regulated utility and, in particular, the relationship between the energy used and the bills received. An examination of the testimony received in the consumer comment hearings held in this docket supports the conclusion that ratepayers in general are somewhat confused with respect to some of the basic features of regulation. In order to study this problem and evaluate possible solutions, Company is directed to work with the Commission's Rates Research & Policy Division to prepare a pilot project for the purpose of evaluating various methods of educating consumers. The Commission would prefer to see a project which will result in quantifiable results. If successful, the Commission will consider extending the program to include

Docket No. RPU-83-22  
Page 8

other investor-owned utilities. Therefore, Company is directed to submit a plan for a pilot project directed at these goals on or before September 1, 1984.

#### FINDINGS OF FACT

Based upon our review of the entire record in this proceeding, we hereby summarize our findings of fact. The findings of fact contained in the proposed final order are adopted herein, to the extent not overruled or modified.

1. Company's investment in jurisdictional generating capacity is \$323,419,000.
2. The federal tax balances associated with nuclear decommissioning shall receive flow-through treatment, in accord with finding of fact No. 26 of the proposed final order.
3. Company's deferred federal income tax liability computed according to Treas. Reg. § 1.167(1)-(1)h(1)(iii) is 41.63 percent of that part of the difference between the tax depreciation deduction and straight-line depreciation expense for which normalization accounting is required by the Internal Revenue Code.
4. The appropriate adjustments to Company's operating income statement resulting from, and consistent with, our other findings (including the proposed final order, where not inconsistent) should be adopted, and Company's net operating income, for purposes of this proceeding, is \$48,242,000, after adjustment has been made for excess capacity.
5. Company's proposed tariffs and rates therein are unjust and unreasonable and therefore should be rejected and a refund ordered.

Docket No. RPU-83-22  
Page 9

6. Interest should be calculated on the basis of the interest paid on 24-month bank loans to individuals as set forth in Federal Reserve Statistical Release G.19 plus 2 percent per annum, computed under the applicable interest rate for each month the overcollection was retained, compounded annually.

#### CONCLUSIONS OF LAW

1. The Commission has jurisdiction of the parties and subject matter of this proceeding.

2. Pursuant to Treas. Reg. § 1.167(l)-(1)(h)(1)(iii), the amount of deferred federal income tax liability is the excess (computed without regard to credits) of the actual tax liability calculated using the accelerated depreciation deduction and all other deductions, including state income taxes, over what that tax liability would have been using subsection (l) depreciation deduction and all other deductions, including state income taxes.

3. Section 50 of the Act of May 17, 1983, ch. 127, 1983 Iowa Acts 269 (H.F. 312) requires the application of the excess capacity adjustment of Iowa Code Section 476.53 (1983 Supplement) to this rate proceeding.

#### IT IS THEREFORE ORDERED:

1. The proposed final order issued by the presiding officer in Docket No. RPU-83-22 on February 21, 1984, is affirmed and adopted, subject to the specific modifications and changes set forth in this order.

2. The tariffs filed by Company and made the subject of the investigation in this docket are hereby declared unjust, unreasonable, and unlawful.

Docket No. RPU-83-22  
Page 10

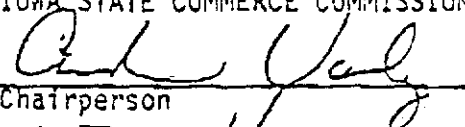
3. On or before the expiration of forty-five days from the date of this order, Company shall file revised tariffs setting schedules of electric rates as required by the findings of this order, the attached schedules (adopted herein by reference) and the proposed final order issued February 21, 1984.

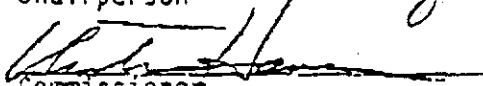
4. Rates based on test period usage contained in the revised tariffs designed to produce a revenue requirement of \$162,778,000 for Company shall be considered the lawful rates chargeable by Company since the date of the rates which are the subject of this proceeding were placed in effect subject to refund.

5. On or before the expiration of forty-five days from the date of this order Company shall submit for our consideration and approval a plan by which refunds shall be made to customers, in accordance with the findings herein, together with sales tax and interest on excess collections. The interest shall be calculated as set forth in finding of fact No. 6. If no refunds are necessary as a result of this order, Company shall file a statement indicating no refunds are necessary and submit supporting data for its conclusion.


6. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the initial or reply briefs not addressed specifically herein is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant comment.

IOWA STATE COMMERCE COMMISSION

  
Chairperson

  
Commissioner

ATTEST:

  
Executive Secretary, Assistant to  
Dated at Des Moines, Iowa, this 25th day of April, 1984.

  
Commissioner

Appendix  
Schedule A

Revenue Requirement

<u>Item</u>		<u>Amount (000)</u>
1	Rate Base	\$453,544
2	Allowed Rate of Return	11.14%
3	Allowed Return	50,525
4	Pro Forma	33,435
5	Return Deficiency	17,090
6	Revenue Deficiency, including tax effect	34,970
7	Excess Capacity	4,672
8	Revenue Increase	30,298
9	Pro Forma Revenue	132,480
10	Revenue Increase	30,298
11	Revenue Requirement	162,778

Appendix  
Schedule B

## Income Statement

<u>Item</u>		<u>Amount</u> <u>(000)</u>
1	Operating Revenues--Revenue Requirement	\$162,778
2	Operating Expenses	
	Power Production	46,366
	Transmission	1,769
	Distribution	5,483
	Customer Accounts	1,964
	Customer Services Information	328
	Sales	4
	Administrative and General	9,500
	Depreciation	19,858
	General Taxes	10,349
	Income Taxes	18,814
	Total Operating Expenses	<u>\$114,435</u>
3	Operating Income	\$ 48,343
4	Non-jurisdictional @ 0.3%	(101)
5	Jurisdictional Operating Income	\$ 48,242



Appendix  
Schedule C

## Jurisdictional Rate Base

<u>Item</u>		<u>Amount (000)</u>
1	Electric Plant in Service	\$589,634
2	Accumulated Depreciation and Amount	<u>(110,104)</u>
	Net Plant in Service	\$479,530
3	Plant Held for Future Use	\$ 3,060
4	Nuclear Fuel--Net	656
5	unitrain Services	6
6	Working Capital	6,169
7	Deductions	<u>(34,512)</u>
	Total Rate Base	<u><u>\$454,909</u></u>
8	Non-jurisdictional @ 0.3%	(1,365)
9	Jurisdictional Rate Base	\$453,544

Appendix  
Schedule D

## Cost of Capital

<u>Item</u>		<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-term Debt	49.3%	8.97%	4.42%
2	Preferred and Preference Stock	14.1	9.64	1.36
3	Common Equity	<u>36.6</u>	14.64	<u>5.36</u>
	Total	100.0%		11.14%

Appendix  
Schedule E

## Excess Capacity

<u>Item</u>		<u>Amount</u>
1	Investment in Generating Capacity	\$323,419,000
2	Weighted Equity Return	5.36%
3	Pro Forma Capacity	964.56 MW
4	Pro Forma Peak Demand Plus 25 Percent Reserve	837.13 MW
5	Excess Capacity	127.43 MW
	$\frac{127.43 \text{ MW}}{964.56 \text{ MW}} (\$323,419,000)(.0536) =$	2,290,197
	Tax effect $(\$2,290,197 \div .4887)$	4,686,304
	Jurisdictional effect $(\$4,686,304 \times .997)$	4,672,245
6	Adjustment for Excess Capacity	4,672,000

DOCKET NOS. RPU-78-11

STATE OF IOWA  
IOWA STATE COMMERCE COMMISSION

IN RE:	)	
	)	
IOWA-ILLINOIS GAS AND ELECTRIC	)	DOCKET NO. RPU-78-11
COMPANY	)	
	)	

ORDER APPROVING "STIPULATION AND AGREEMENT" IN FINAL  
RESOLUTION OF THIS PROCEEDING

(Issued May 1, 1980)

Procedural Background

This proceeding was initiated by the filing by Iowa-Illinois Gas and Electric Company (Company) of increased rates for jurisdictional gas service on March 29, 1978, which is designated RPU-78-11 (TF-78-110). The total annual revenue increase over rates last filed by Iowa-Illinois for natural gas service was represented by Company to be approximately \$4,150,138 (3.8 percent). The requested effective date for the filed tariff was April 23, 1978.

By order of April 27, 1978, we initiated an investigation of the rates, suspended TF-78-110 for one year (effective with usage April 28, 1978) subject to refund with interest on amounts collected in excess of rates finally determined to be reasonable. We also suspended Company's proposed interim natural gas increase of \$3,629,699 for one day from April 28, 1978 and allowed the interim rates to become effective with usage April 29, 1978. Our April 27, 1978 order further accepted Company's corporate commitment to make natural gas refunds if the rates were found to be excessive and granted the Petition to Intervene of the League of Iowa Municipalities.

On July 17, 1978, we entered an order which granted the Petition to Intervene of Julius L. Garth.

On March 26, 1980, the Iowa State Commerce Commission Staff (Staff) filed a "Motion To Establish Hearing Date" in the above-styled docket. The motion recited that Staff, Iowa-Illinois Gas and Electric Company and the League of Iowa Municipalities had entered into a Stipulation, which if accepted by us, would dispose of all issues in this proceeding.

We granted Staff's motion and subsequently held a hearing on April 14, 1980 for purposes of according final consideration to the Stipulation and supporting data attached to the Stipulation.

Company and Staff witnesses presented testimony at the hearing in support of the Stipulation which Stipulation was formally admitted into evidence.

The Intervenor Iowa League of Municipalities is a signatory of the Stipulation and did not appear at the hearing.

The Intervenor Julius Gerth also did not appear at the hearing, but authorized Staff counsel to state on the record that although Intervenor Gerth would not join in the Stipulation, he would not oppose it.

On April 23, 1980, a late-filed Exhibit was filed in support of Company witness O'Brien's testimony regarding compliance with voluntary Federal Price Guidelines. In the absence of any objection to this exhibit, we shall admit it into evidence and accord it consideration along with the Stipulation.

We now turn to consider the Stipulation.

#### The Stipulation

The purpose of the Stipulation is to settle and dispose of all issues in this proceeding. Specifically, Company's total rate base was agreed to be \$65,319,000 which was determined by using an average original cost plant, less depreciation, from a 1977 test year. Operating income was analyzed with certain pro forma adjustments made--the largest adjustment being in gas sales and for expense to a normal year--and such things as the annualization of wage increases which went into effect in mid-1977. The cost of equity capital was agreed to be 12.5 percent which when in relation to debt capital results in a composite cost of capital of 9.32 percent.

Upon the basis of the Stipulation and supporting exhibits coupled with the evidence that the results of the Stipulation will comply with the applicable voluntary price guidelines, we find that the Stipulation provides for a reasonable resolution of this proceeding which will result in just and reasonable rates for natural gas service provided by Company. We shall therefore approve the Stipulation.

#### CONCLUSION OF LAW

The Commission has jurisdiction of this matter pursuant to Chapter 476, C79.

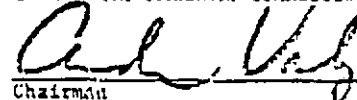
#### FINDINGS OF FACT

1. The Stipulation and Agreement is reasonable and should be approved.
2. Company's proposed increases comply with the Federal Wage Price Guidelines.
3. Company's natural gas tariff identified as TF-73-110 filed March 29, 1973, is unjust and unreasonable, and should be disapproved.
4. The revised tariffs, required by the Stipulation, should produce rates which are just and reasonable.

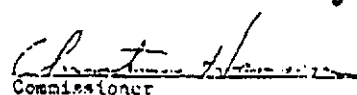
#### THE COMMISSION ORDERS:

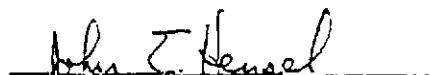
1. The aforementioned Stipulation is hereby approved.
2. Company's natural gas tariff identified as TF-73-110 is hereby disapproved.
3. Company shall submit, within thirty (30) days of the issuance of this order, revised tariffs which comply with the terms of the Stipulation as well as a plan for refunding any amounts found to be unjust and unreasonable.

IOWA STATE COMMERCE COMMISSION

  
Chairman

ATTEST:

  
Commissioner

  
Secretary

Commissioner

Dated at Des Moines, Iowa this 1st day of May, 1980.

STATE OF IOWA  
BEFORE THE IOWA STATE COMMERCE COMMISSION

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IN RE:	)	
	)	
IOWA-ILLINOIS GAS AND ELECTRIC	)	DOCKET NO. RPU-78-12
COMPANY	)	

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STIPULATION AND AGREEMENT

On March 29, 1978, Iowa-Illinois Gas and Electric Company (Company) filed with the Iowa State Commerce Commission (Commission) a revised electric tariff identified as TF-78-111 wherein Company proposed to increase rates for electric service effective April 28, 1978. By order of April 27, 1978, the Commission suspended the proposed rate increase for one year from the proposed effective date of April 28, 1978 to April 28, 1979, and instituted a formal proceeding, Docket No. RPU-78-12, to determine the justness, reasonableness, and lawfulness of TF-78-111. By order of November 22, 1978, the Commission approved Company's corporate undertaking to guarantee refunds and allowed TF-78-111 to become effective, subject to refund with interest. Company placed such rates into effect, subject to refund with interest, on December 7, 1978. Such rates were in compliance with the Commission's order issued March 8, 1978 entitled, "Order Approving Electric Rate Design Subject To The Establishment Of An Overall Revenue Requirement". By order of April 27, 1978, the Commission granted the Petition to Intervene of the League of Iowa Municipalities. Also by order of July 17, 1978 the Commission granted the Petition to Intervene of Julius L. Garth.

This Stipulation and Agreement has been prepared and entered into by the signatories hereto for the purpose of settling and disposing of all the issues in this proceeding.



The jurisdictional Iowa rate base for this proceeding is \$219,918,000 as shown on Schedule 1 attached hereto.

The jurisdictional Iowa revenue requirements for this proceeding are shown on Schedules 2 and 3 attached hereto. For 1979 the revenue requirement is \$97,626,000 and prospectively is \$98,417,000.

The refund required as a result of the agreement of the parties to the revenue requirements shown on Schedules 2 and 3, and to be made by the Company in this proceeding is \$1,639,000. All of the increased revenues collected in 1978 pursuant to said revised electric tariff in the amount of \$529,000 shall be refunded. The balance of \$1,110,000 shall be refunded from 1979 collections.

The said revised electric tariffs filed on March 29, 1978, and subsequently modified to adopt the Uniform Energy Adjustment Clause, as identified as TF80-37, are not, for the period subsequent to the refund period, excessive for the purposes of this Stipulation and Agreement.

As an integral part of this Stipulation and Agreement an adjustment shall be appropriate in future jurisdictional Iowa electric revenue requirement determinations to recognize the amortization of a deferred charge of \$639,000 over 4 years beginning in 1980 associated with abandoned nuclear projects at the Quad-Cities Station.

The Company shall make the refund to its Iowa jurisdictional electric customers in the amount of \$1,639,000 plus interest at an annual rate of 9% for refundable amounts collected prior to July 1, 1979 and at an annual rate of 12% compounded annually for refundable amounts collected subsequent to July 1, 1979. The refundable percentages are 100% for 1978 and 6.96% for 1979.

For purposes of said refund, interest will be calculated for each customer beginning with the due date of the first bill on which that customer is entitled to a refund. Sales tax applicable to each customer's principal amount will be calculated. The total refund shall include the principal, interest and applicable sales tax.

The refunds will be made during September, 1980. Amounts due customers in arrears will be applied against the unpaid balance. Existing customers will receive a credit on their September, 1980 bill. The principal amount, the interest amount, and the sales tax amount, together with the total amount, will be shown on the bill.

The refund amounts will average approximately \$6 per residential customer, excluding interest and sales tax. A credit on the customer's bill is the only practical method to use in making a refund of this size. Refund checks will be issued to "final bill" customers (those who have moved) if the refund amounts to \$1 or more. A refund report will be made to the Commission on or before 90 days after all refunds are issued. Subsequent refund reports will be made as required.

By Order dated December 28, 1979 and January 30, 1980, the Commission suspended revised electric tariff schedules designed to adopt the Uniform Energy Adjustment Clause (Commission File TF79-612 and TF80-37) for one day and consolidated the matter with RPU-78-12 for further investigation. The parties hereto agree the Company's revised electric energy cost adjustment clause conforms to Commission Rule 250-20.9.

This Stipulation and Agreement is made pursuant to Rules 7.7(4) and 7.9(2) of the Commission's Rules of Practice and Procedure, and

if it is not accepted and approved by order of the Commission in its entirety without condition, it shall be privileged and of no effect. The provisions of this Stipulation and Agreement are intended to relate only to the specific matters referred to herein and no party by agreeing heretowaives any claim or right which it may otherwise have with respect to any matters not expressly provided for herein. It is further specifically understood and agreed that neither the signatories to this Stipulation and Agreement nor any other party or person shall be deemed to have approved, accepted, agreed or consented to any ratemaking principle or any method of cost of service determination, or cost allocation, underlying or supposed to underlie any of the provisions of this Stipulation and Agreement, or be prejudiced or bound thereby in any future Company rate proceeding, or in any proceeding except as to said signatories as specifically provided for herein.

Neither this Stipulation and Agreement nor any of the provisions hereof shall become effective unless and until the Commission has entered a final order approving and adopting all of the terms and conditions of this Stipulation and Agreement without modifications or condition.

IOWA-ILLINOIS GAS AND ELECTRIC  
COMPANY

By Edward J. Hesterman  
Its Attorney

Dated this 31 day of July,  
1980.

IOWA STATE COMMERCE COMMISSION

By James R. Mart  
Its Attorney

Dated this 31 day of July,  
1980.

LEAGUE OF IOWA MUNICIPALITIES

By William J. Suggs  
Its Attorney

Dated this 31 day of July,  
1980.

JULIUS L. GERTH

By \_\_\_\_\_  
Its Attorney

Dated this \_\_\_\_ day of \_\_\_\_\_,  
1980.

## Schedule 1

## IOWA-ILLINOIS GAS AND ELECTRIC COMPANY

Docket No. RPU-78-12

Rate Base  
1979Plant In Service:

Intangible Plant	\$ 416
Production Plant	163,911
Transmission Plant	53,728
Distribution Plant	81,174
General Plant	6,794
Common Plant Allocated	7,427
Additional Plant In Service	<u>282</u>
Plant In Service	313,732
Accumulated Depreciation and Amortization	<u>(75,718)</u>
Net Plant In Service	238,014
Plant Held For Future Use	718
Common Plant Held For Future Use	80
Nuclear Fuel	<u>3,494</u>
Net Plant In Service	242,306
Working Capital Requirements	5,006
Rate Base Deductions	<u>(26,732)</u>
Total Rate Base	220,580
Non-jurisdictional @ .3%	<u>(662)</u>
Iowa Rate Base	<u>\$219,918</u>

July 1980

## IOWA-ILLINOIS GAS AND ELECTRIC COMPANY

Docket No. RPU-78-12  
Revenue Requirements - 1979

Power Production Expenses	\$37,148
Transmission Expenses	1,227
Distribution Expenses	3,981
Customer Accounts Expenses	1,421
Customer Service and Informational Expenses	331
Sales Expenses	9
Administrative and General Expenses	5,335
Depreciation Expenses	10,997
General Taxes Expenses	5,773
Income Taxes Expenses	<u>10,919</u>
Total Operating Expenses	\$77,141
Return on Rate Base	<u>20,779</u> (1)
Revenue Requirements	\$97,920
Non-jurisdictional @ .3%	<u>(294)</u>
Jurisdictional Revenue Requirements	<u>\$97,626</u>

(1) Rate base of \$220,580,000 (Schedule 1) x 9.42% return on rate base (Schedule 4) = \$20,779,000.

July 1980

## Schedule 3

MidAmerican Exhibit 8.1

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## IOWA-ILLINOIS GAS AND ELECTRIC COMPANY

Docket No. RPU-78-12

Revenue Requirements - Prospective Period

Power Production Expenses	\$37,680
Transmission Expenses	1,239
Distribution Expenses	4,020
Customer Accounts Expenses	1,435
Customer Service and Informational Expenses	334
Sales Expenses	9
Administrative and General Expenses	5,513
Depreciation Expenses	10,997
General Taxes Expenses	5,788
Income Taxes Expenses	<u>10,919</u>
Total Operating Expenses	77,934
Return on Rate Base	<u>20,779</u>
Revenue Requirements	98,713
Non-jursidictional @ .3%	<u>(296)</u>
Jurisdictional Revenue Requirements	<u><u>\$98,417</u></u>

July 1980

## Schedule 4

## IOWA-ILLINOIS GAS AND ELECTRIC COMPANY

Docket No. RPU-78-12  
Cost of Capital  
1979

<u>Description</u>	<u>Amount</u>	<u>Capitalization Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-term Debt	\$250,955,000	47.80%	7.33%	3.50%
Preferred Stock	20,032,394	3.82%	5.89%	.22%
Preference Stock	55,545,167	10.58%	9.16%	.97%
Common Equity	<u>198,471,917</u>	<u>37.80%</u>	<u>12.50%</u>	<u>4.73%</u>
Total	<u>\$525,004,478</u>	<u>100.00%</u>		<u>9.42%</u>

July 1980

DOCKET NO. RPU-83-29



STATE OF IOWA  
IOWA STATE COMMERCE COMMISSION

IN RE:

IOWA PUBLIC SERVICE COMPANY

DOCKET NO. RPU-83-29

ORDER APPROVING STIPULATION AND AGREEMENT

(Issued November 10, 1983)

On August 16, 1983, Iowa Public Service Company (Company) filed tariffs identified as TF-83-426 and TF-83-427, for a revision in its rates and charges for electric utility service. These tariffs were docketed by Commission order of September 8, 1983. On October 6, 1983, Iowa Citizens for Community Improvement (CCI) and Terra Chemicals International, Inc. (Terra) were granted intervenor status in the proceeding. On October 7, 1983, the Commission authorized the Company to bill and collect increased rates on an interim basis commencing October 13, pending hearing and decision. On October 17 the Office of Consumer Advocate (OCA) filed an application for rehearing concerning the interim rates. On October 26, Company, OCA, and Terra filed a proposed stipulation and agreement for the approval of the Commission. The proposed stipulation and agreement will be approved.

11 A part of Company's evidence in this rate case was a cost-of-service study. If the results of this study were applied to Company's rates, certain classes would be subject to a greater percentage increase than

certain other classes. Under Article 12 of the stipulation, a uniform increase will be applied to all classes, and Company is to prepare another cost-of-service study as part of its next rate case. The Commission directs Company to file the cost-of-service study on or before July 1, 1984, with tariffs setting out a rate structure based on the results of the study, if that rate structure would be different than the rates then in effect.

Company is directed to file quarterly reports, beginning January 1, 1984, concerning the efficiency of Company's management. The information to be contained in the reports will be the subject of a later order, to be issued after Company has discussed the matter with the Operations Review Division staff.

Finally, the Commission finds that the application for rehearing filed on October 17, 1983, by OCA is rendered moot by the provisions of the stipulation.

IT IS THEREFORE ORDERED:

1. The proposed stipulation and agreement filed by Company, Terra and OCA in Docket No. RPU-83-29 is approved.
2. Company is directed to file a current cost-of-service study on or before July 1, 1984, along with tariffs supporting a rate structure based on the results of that study, if such a rate structure would be different than the rates then in effect. This proceeding will be docketed as a matter separate from Docket No. RPU-83-29.
3. Company is directed to file quarterly reports beginning January 1, 1984, concerning the management efficiency of the Company. The information